

MINUTES  
ECONOMIC POLICY COUNCIL

August 27, 1985  
2:00 p.m.  
Roosevelt Room

Attendees: Messrs. Baker, Brock, Yeutter, McFarlane, Wright, Whitehead, Norton, Burnley, Anderson, Kingon, McAllister, Cornell, Driggs, Gould, Holmer, Keel, Khedouri, McMinn, Smart, Stucky, and Wigg, and Ms. Risque.

1. Potential Section 301 Investigations

Secretary Baker stated that the purpose of the meeting was two-fold: to determine (1) which, if any, of the 10 potential Section 301 investigations prepared by the USTR to recommend to the President; and (2) when the Section 301 investigations initiated by the President should be announced.

Ambassador Yeutter outlined the 10 potential 301 investigations. He stated that the Japan leather and leather footwear and the EC canned fruit Section 301 investigations have already been initiated and the question is whether to move forward much more rapidly. The canned fruit case does not involve much trade volume and action would be pursued more as a matter of principle. The leather case has a long history, and a resolution should be vigorously pursued. The Japanese have offered to replace their GATT illegal quotas with GATT legal tariffs and compensation, but that is not acceptable to the United States because it does not open the Japanese market.

Ambassador Yeutter stated that in his opinion the Japanese tobacco case is a good one, albeit with the stigma of smoking. It possesses the offsetting benefit of affecting a textile producing region of the country. American manufacturers cannot produce tobacco products in Japan and the distribution of tobacco products in Japan is controlled by a monopoly. He noted that the insurance industry is prepared to request a Section 301 investigation with regard to access to Korean markets. Such a case would affect a service industry with a potential large trade volume. Ambassador Yeutter stated that the Brazil informatics case is a clear violation of GATT with a large potential trade volume. He noted also that Brazil would benefit from a Presidential decision to impose footwear quotas.

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Ambassador Yeutter stated that the U.K. restrictions on firms servicing the North Sea oil fields case is less attractive because U.S. firms are working to enter the market through joint ventures, and would oppose a Section 301 investigation. A Section 301 case on West German trans-border data flows would not affect much trade volume. Representatives of the American aluminum industry are prepared to file a petition for a 301 investigation into Japanese policies discriminating against U.S. aluminum products. He noted that Taiwan has expressed a willingness to address U.S. concerns regarding the protection of intellectual property rights, which argues against initiating a Section 301 investigation. He stated that the EC case on subsidized wheat and barley sales to the Soviet Union possesses the largest potential effect on trade volume, but has some practical drawbacks. He concluded that the case may be premature and more study is warranted.

Ambassador Yeutter stated that the President might set a December 1 timetable for the leather and canned fruit cases to ensure prompt resolution. He observed that non-GATT cases can be concluded in one year, with GATT cases requiring two years.

Secretary Brock pointed out that when Congress returns it will likely pass footwear and textile legislation. To sustain the Administration's policy, we will have to forcefully attack unfair trade practices. He suggested that if we take action against the EC on wheat and barley subsidies, it be on a global basis, not just the Soviet market.

Secretary Baker offered as a proposition that the Administration must adopt an aggressive posture against unfair foreign trade practices by vigorously enforcing our laws against unfair trade. All members of the Council agreed with the proposition.

Mr. Whitehead cautioned against initiating a Section 301 investigation against Brazil because of the seriousness of its debt problem. He noted that the Brazilian Finance Minister and the Governor of the Central Bank resigned yesterday because of their disappointment at Brazil's failure to follow the austerity plan imposed by the IMF. Other Council members noted that an investigation against Brazil would take at least one year, so there would be no immediate action against Brazil. Brazil would also benefit from a decision not to impose footwear quotas.

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The Council's discussion focused on the likelihood that the U.S. might have to retaliate if negotiations fail in resolving the Section 301 cases. Some members questioned whether the Administration would retaliate and against what practices. Mr. Keel argued that retaliation is not in the interest of the U.S. because it closes our markets. Secretary Baker noted that our trading partners must see us as willing to take retaliatory measures or we will be unsuccessful in opening their markets.

Mr. Keel stated that he urges undertaking a minimum number of Section 301 investigations and establishing rigorous guidelines for initiating such cases, to avoid hundreds of requests for more Section 301 initiatives.

The Council discussed several criteria by which to evaluate potential Section 301 investigations, including timing, trade volume, likelihood of retaliation, and constituency involved. Secretary Brock suggested that the Japanese aluminum case is a good one, particularly because organized labor would be affected.

The Council also discussed the possibility that Section 301 investigations would lead to a trade war. Several members noted that only the EC can effectively retaliate against the U.S., with the EC wheat and barley case offering the only possibility of igniting a trade war.

Mr. McFarlane urged that the Administration initiate the five cases -- Japan leather, EC canned fruit, Korea insurance, Brazil informatics and Japan tobacco -- as a signal to our trading partners that we are intent in our efforts to eliminate unfair trading practices.

#### Decision

Secretary Baker polled the Council on the desirability of the following cases -- Japan leather, EC canned fruit, Korea insurance, Brazil informatics and Japan tobacco. All members supported the five cases except OMB, which supported only the EC Japanese leather and EC canned fruit cases, and the State Department, which opposed the Brazil case. Secretary Baker asked Mr. McAllister to poll the members on the Japanese aluminum case. The Council also agreed not to link the Section 301 initiatives with the footwear decision, but noted that the announcement should be made before Congress returns.